

Trends in Lending

January 2015



BANK OF ENGLAND



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This quarterly publication presents the Bank of England's assessment of the latest trends in lending to the UK economy.⁽¹⁾ It draws mainly on long-established official data sources, such as the existing monetary and other financial statistics collected by the Bank that cover all monetary financial institutions, and data collections established since the start of the financial crisis.

These data are supplemented by discussions between the major UK lenders and Bank staff, giving staff a better understanding of the business developments driving the figures, and this intelligence is reflected in the report.⁽²⁾ The major UK lenders⁽³⁾ are Banco Santander, Barclays, HSBC, Lloyds Banking Group, Nationwide and Royal Bank of Scotland and together they accounted for around 70% of the stock of lending to businesses, 75% of the stock of mortgage lending, and 50% of the stock of consumer credit (excluding student loans) at end-September 2014. The report also draws on intelligence gathered by the Bank's network of Agents and from market contacts, as well as the results of other surveys including the Bank of England's *Bank Liabilities Survey* and *Credit Conditions Survey*.⁽⁴⁾ The focus of the report is on lending, but broader credit market developments, such as those relating to capital market issuance, are discussed where relevant.

The report covers data and intelligence gathered up to end-December 2014. Unless stated otherwise, the data reported cover lending in both sterling and foreign currency, expressed in sterling.

(1) See www.bankofengland.co.uk/statistics/Documents/releasecalendar.pdf for future publication dates.

(2) For a fuller background, please refer to the first edition of *Trends in Lending* available at www.bankofengland.co.uk/publications/other/monetary/trendsapril09.pdf.

(3) Membership of the group of major UK lenders is based on the provision of credit to UK-resident companies and individuals, regardless of the country of ownership.

(4) The *Bank Liabilities Survey* and the *Credit Conditions Survey* for 2014 Q4 were conducted between 10 November and 1 December.

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Executive summary

The average monthly net lending flow to UK businesses was negative in the three months to November. Net capital market issuance by these businesses in the year to November was the highest in five years. Mortgage approvals by all UK-resident mortgage lenders for house purchase have fallen in recent months and were lower than at the start of the year. The annual growth rate in the stock of consumer credit increased to 6.9% in November.

Pricing on lending to small and medium-sized enterprises was broadly unchanged in the three months to November. Respondents to the Bank of England's 2014 Q4 *Credit Conditions Survey* reported that spreads on new lending to large businesses fell significantly. The quoted interest rates on some two-year fixed-rate mortgages, such as those at 75% and 90% loan to value ratios, fell in 2014 Q4.

Contacts of the Bank's network of Agents noted that credit availability had continued to improve, with banks competing to lend to larger firms or lower-risk companies. Respondents to the Bank of England's *Credit Conditions Survey* expected demand for bank lending to increase for all but small businesses in 2015 Q1. Lenders in the survey reported that the availability of secured credit to households rose slightly, and that demand fell significantly in 2014 Q4. Demand for credit card and other unsecured lending increased significantly, according to respondents to the survey.

1 Lending to UK businesses and individuals

The average monthly net lending flow to UK businesses was negative in the three months to November. Net capital market issuance by these businesses in the year to November was the highest in five years. Mortgage approvals by all UK-resident mortgage lenders for house purchase have fallen in recent months and were lower than at the start of the year. The annual growth rate in the stock of consumer credit increased to 6.9% in November.

Table 1.A Net lending to UK businesses and individuals^(a)

£ billions	Averages					2014		
	2010	2011	2012	2013	2014 to Nov.	Sep.	Oct.	Nov.
Businesses								
PNFC all currency loans ^(b)	-2.1	-0.8	-1.5	-0.7	-0.6	0.6	-2.8	0.1
PNFC M4Lx ^(c)	-1.4	-1.1	-0.9	-0.2	-0.9	-2.0	-4.4	2.5
<i>of which:</i>								
<i>sterling loans^(d)</i>	-1.6	-0.5	-1.2	-0.5	-1.0	-0.7	-2.5	-1.2
Individuals								
Secured lending ^(e)	0.6	0.8	0.9	0.9	2.0	1.8	1.6	2.1
Consumer credit ^{(e)(f)}	-0.2	-0.1	0.2	0.6	0.9	1.0	1.1	1.3
<i>of which:</i>								
<i>credit card</i>	0.2	0.1	0.1	0.2	0.2	0.0	0.4	0.3
<i>other unsecured</i>	-0.4	-0.2	0.1	0.4	0.7	1.0	0.7	1.0

(a) Seasonally adjusted.

(b) Loans by UK monetary financial institutions (MFIs) to private non-financial corporations (PNFCs) excluding the effects of securitisations and loan transfers. Data cover loans in both sterling and foreign currency, expressed in sterling.

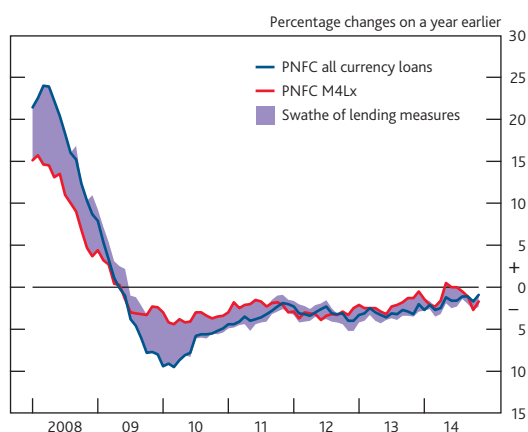
(c) Sterling M4 lending by UK MFIs to PNFCs excluding the effects of securitisations and loan transfers. Data cover loans and MFIs' holdings of securities.

(d) This measure includes loans and MFIs' holdings of bills and acceptances and excludes commercial paper.

(e) Sterling lending by UK MFIs and other lenders to UK individuals.

(f) Consumer credit consists of credit card lending and other unsecured lending (other loans and advances) excluding student loans.

Chart 1.1 Lending to UK businesses^(a)



(a) Lending by UK MFIs to PNFCs or non-financial businesses. Rate of growth in the stock of lending. Series included in the swathe are PNFC M4Lx (seasonally adjusted), all currency loans to PNFCs (seasonally adjusted), sterling loans to PNFCs (seasonally adjusted), all currency loans to non-financial businesses (non seasonally adjusted). Data are to November 2014. Further details on the series used in the chart are provided in *Bankstats (Monetary and Financial Statistics)*, August 2014, 'Measures of lending to UK businesses', available at www.bankofengland.co.uk/statistics/Documents/ms/articles/art1sep14.pdf.

This section presents a summary of the recent data on lending to UK businesses and individuals. The twelve-month growth rate in the stock of loans to UK-resident households and businesses fell slightly to around 1.4% over the three months to November.

Lending to UK businesses

Data covering lending by all UK-resident banks and building societies indicated that the average monthly net lending flow to UK businesses was negative in the three months to November across a range of measures (**Table 1.A**). The annual rate of growth in the stock of lending to UK businesses also remained negative (**Chart 1.1**).⁽¹⁾ This was largely accounted for by the contribution of lending to the real estate sector. The rate of decline in the overall stock of lending to non-financial businesses had eased slightly compared to recent years, with positive net lending to some other major industrial sectors.

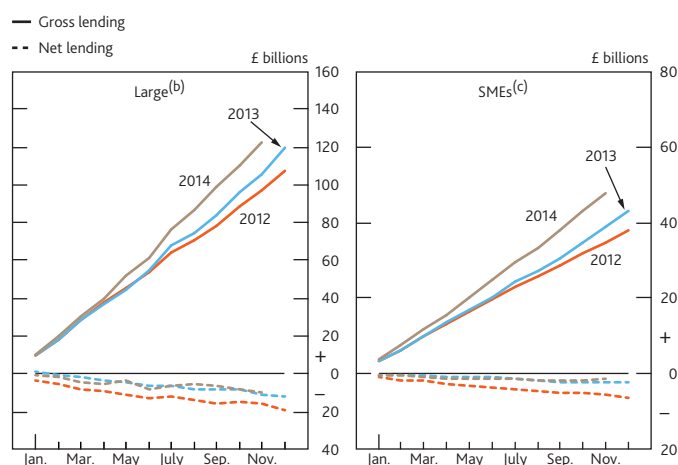
Data from participants in the Funding for Lending Scheme (FLS) Extension showed that their net lending to all businesses was -£2.4 billion in 2014 Q3.⁽²⁾ Net lending by FLS Extension participants to small and medium-sized enterprises (SMEs) was slightly negative, but at -£0.1 billion was less negative than in previous quarters. Net lending to large companies was -£2.2 billion.

Over the year to November, cumulative gross lending by all UK MFIs to both UK large businesses and SMEs was higher than in recent years (**Chart 1.2**). Repayments also increased, such that net lending was little changed and remained negative. In recent discussions, some major UK lenders noted

(1) For growth rates on the PNFC all currency loans and M4Lx series, see the worksheets titled 'Table A' and 'Table B' in the spreadsheet accompanying this section, available at www.bankofengland.co.uk/publications/Documents/other/monetary/lendingtoubusinessesandindividualsjanuary2015.xls.

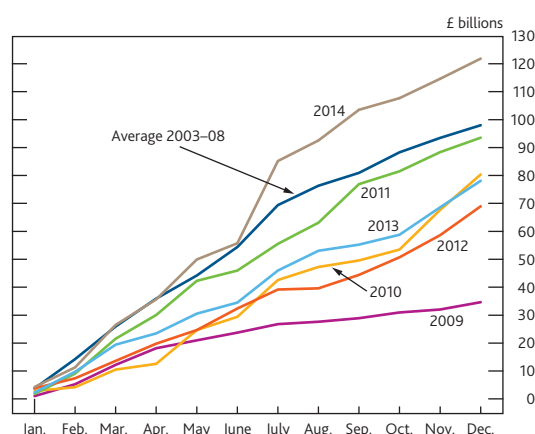
(2) Net lending in the FLS Extension includes lending related to non-bank credit providers. For more details, see 'Funding for Lending Scheme Extension — Usage and lending data', available at www.bankofengland.co.uk/markets/Pages/FLS/extensiondata.aspx. Non seasonally adjusted.

Chart 1.2 Cumulative gross and net lending to UK non-financial businesses^(a)



- (a) Loans by UK MFIs to non-financial businesses. Net lending is defined as gross lending minus repayments. Data exclude overdrafts and cover lending in both sterling and foreign currency, expressed in sterling. Non seasonally adjusted.
 (b) Large businesses are those with annual debit account turnover on the main business account over £25 million.
 (c) SMEs are those with annual debit account turnover on the main business account less than £25 million.

Chart 1.3 Cumulative estimates of new syndicated lending facilities granted to UK businesses^(a)



Sources: Dealogic and Bank calculations.

- (a) Defined broadly as PNFCs. New syndicated lending facilities excluding cancelled or withdrawn facilities by UK-resident and non-resident lenders. Data cover lending facilities in both sterling and foreign currency, expressed in sterling. Non seasonally adjusted.

that a factor which had increased both gross lending and repayments was that some businesses had refinanced loans at better rates.

Larger companies have access to more bank lending sources than smaller businesses, such as the syndicated lending market. The total value of new syndicated lending facilities granted in the UK market by UK-resident and non-resident lenders in 2014 was higher both than in recent years and the pre-crisis average (**Chart 1.3**). The majority of new facilities continued to be for refinancing purposes, according to Dealogic data.

Capital markets, such as bond and equity markets, provide an alternative source of external finance for larger companies. Net bond issuance was £9.5 billion in the three months to November, the highest three-monthly total since May–July 2009. Net capital market issuance by UK businesses in the year to November was the highest in five years. For more details on capital market issuance in 2014, see the box on pages 8–9.

Net finance raised by UK businesses from UK MFIs and capital markets was positive in 2014 to November for the first time since 2008. Bank lending continued to drag on net finance raised, but by less than in previous years.

Indicators of corporate distress were broadly unchanged in the year to 2014 Q3. The rate of corporate liquidations was little changed. Similarly, the corporate write-off rate — the ratio of banks' write-offs on corporate lending to the stock of that lending — was little changed, though remained elevated compared to the pre-crisis period (**Chart 1.4**).

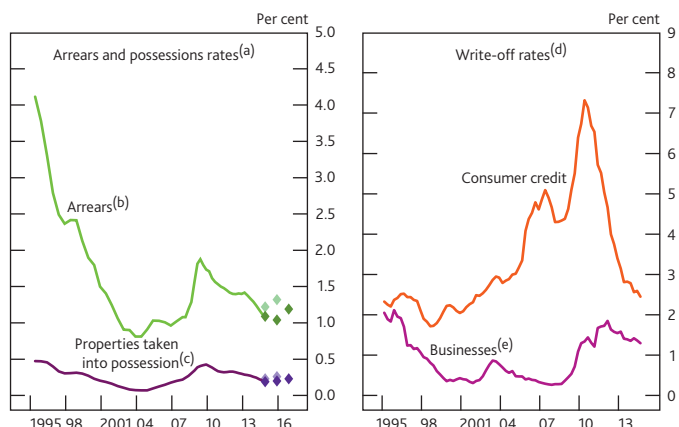
Secured lending to individuals

The average monthly net lending flow by all UK-resident mortgage lenders was £1.8 billion in the three months to November (**Table 1.A**), slightly lower than the previous three months. The annual rate of growth in the stock of secured lending to individuals rose slightly to 1.9% in November.⁽¹⁾

Mortgage approvals by all UK-resident mortgage lenders for house purchase have fallen in recent months and were lower than at the start of the year. Notwithstanding this, the cumulative total for 2014 to November was higher than the comparable period in recent years (**Chart 1.5**). Approvals for remortgaging were also lower in November compared to the start of the year.

(1) For growth rates relating to this series, see the worksheet titled 'Table C' in the spreadsheet accompanying this section, available at www.bankofengland.co.uk/publications/Documents/other/monetary/lendingtoubusinessesandindividualsjanuary2015.xls.

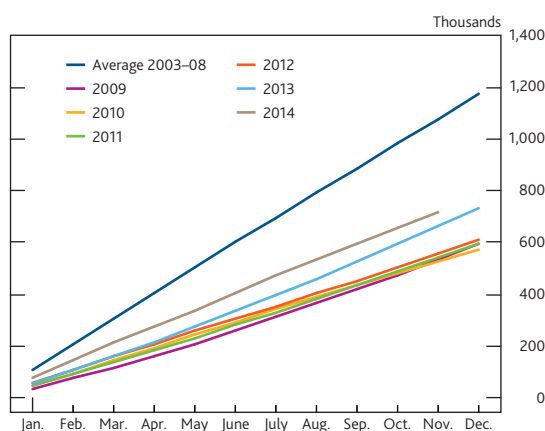
Chart 1.4 Mortgage arrears and possessions rates, and write-off rates on lending to UK businesses and individuals



Sources: CML, Bank of England and Bank calculations.

- (a) Series are expressed as the proportion of the number of outstanding mortgages. Data are semi-annual up to end-2007 and quarterly since then. The light green/lilac diamonds show the CML forecast for end-2014 and end-2015 made in July 2014 and the dark green/purple diamonds show the CML forecast for end-2014, end-2015 and end-2016 made in December 2014. Non seasonally adjusted.
- (b) Mortgages in arrears of 2.5% or more of the outstanding mortgage balance.
- (c) Properties taken into possession over the preceding twelve-month period.
- (d) Lending by UK MFIs. The series are calculated as annualised quarterly write-offs divided by the corresponding loans outstanding at the end of the previous quarter. The data are presented as four-quarter moving averages. Lending in both sterling and foreign currency, expressed in sterling. Non seasonally adjusted.
- (e) PNFCs.

Chart 1.5 Cumulative approvals of loans for house purchase^(a)



- (a) Data are for the number of approvals for house purchase secured on dwellings, covering sterling lending by UK MFIs and other lenders to UK individuals. They are measured net of cancellations. Seasonally adjusted.

Total gross secured lending for 2014 will have been higher than in recent years (**Chart 1.6**). In forecasts published in December 2014, the Council of Mortgage Lenders (CML) expected gross secured lending by all UK-resident mortgage lenders to increase in 2015 and 2016, but more slowly than in 2014. Net lending was also forecast to increase slightly in 2015 and 2016.

Indicators of mortgage distress were little changed or have eased slightly. Data from the CML indicated that the mortgage arrears rate fell slightly in the year to 2014 Q3 (**Chart 1.4**). The arrears rate on buy-to-let mortgages also fell slightly. The write-off rate on mortgages — the ratio of write-offs on secured loans to the stock of lending — was little changed. The possessions rate — the ratio of the number of properties taken into possession to the number of outstanding mortgages — was also unchanged (**Chart 1.4**).

The current forecast for the mortgage arrears rate by the CML for both 2014 and 2015 is lower than that anticipated in mid-2014 (**Chart 1.4**). It is expected to fall in 2015 and then to rise the year after. The possessions rate is expected to rise slightly in 2016.

Consumer credit

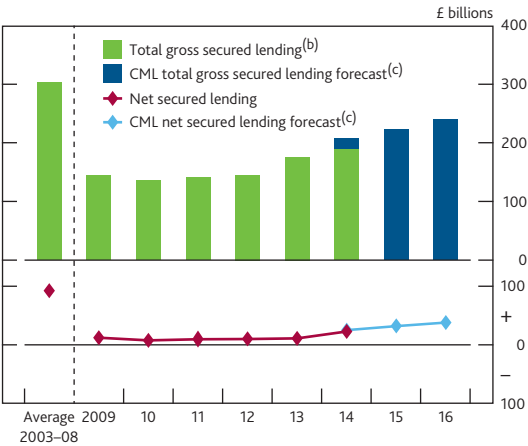
The average monthly net consumer credit flow (excluding student loans) was £1.1 billion in the three months to November (**Table 1.A**), slightly higher than the previous three months.

More generally, net flows of consumer credit continued to strengthen in 2014, largely accounted for by flows of other unsecured lending (eg personal loans) (**Chart 1.7**). The majority of new lending on other unsecured credit in 2014 was for car finance. Consistent with this, the value of advances against cars bought on finance by consumers through dealerships grew in the twelve months to November 2014, according to data from the Finance & Leasing Association.

The annual growth rate in the stock of consumer credit increased to 6.9% in November.⁽¹⁾ Within this, the annual growth rate in the stock of other unsecured lending continued to increase, reaching 8%.

(1) For growth rates relating to this series, see the worksheet titled 'Table D' in the spreadsheet accompanying this section, available at www.bankofengland.co.uk/publications/Documents/other/monetary/lendingtoubusinessesandindividualsjanuary2015.xls.

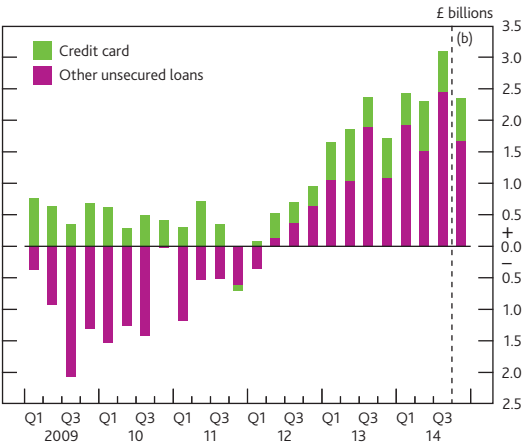
Chart 1.6 Gross and net lending secured on dwellings^(a)



Sources: CML, Bank of England and Bank calculations.

- (a) Total gross and net lending secured on dwellings. Data for 2014 are to November. Data cover sterling lending by UK MFIs and other lenders to UK individuals. Non seasonally adjusted.
- (b) The bar for 2014 comprises the CML forecast for the year with data up to November.
- (c) CML forecasts for 2014, 2015 and 2016 made in December 2014.

Chart 1.7 Net consumer credit flows^(a)



- (a) Sterling lending by UK MFIs and other lenders to UK individuals. Consumer credit consists of credit card lending and other unsecured lending (other loans and advances) and excludes student loans. Seasonally adjusted.
- (b) Data for 2014 Q4 are for October and November.

The write-off rate on consumer credit — the ratio of write-offs on unsecured loans to the stock of unsecured lending — fell slightly in the year to 2014 Q3 (Chart 1.4). The rate of personal insolvencies in England and Wales was little changed.

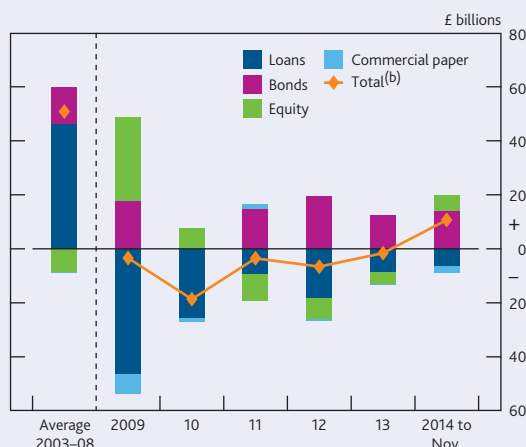
An update on capital market issuance

For larger companies, capital markets provide an alternative source of external finance to lending from the banking sector. Following on from previous editions of *Trends in Lending*, this box provides an update on how bond, equity and commercial paper issuance by UK businesses evolved in 2014. Total net capital market issuance by these businesses in the year to November was the highest in five years. Within this, net equity issuance turned positive having been negative in the previous three years. Net bond issuance was also positive, broadly similar to 2013.

Equity issuance

Net equity issuance was positive for the first time in four years in 2014 to November (green bars in **Chart A**). This turnaround partly reflected strong gross equity issuance by UK private non-financial corporations (PNFCs), which in 2014 was the highest since 2009 according to data from Dealogic (**Chart B**).

Chart A Net external finance raised by UK businesses from banks and capital markets^(a)



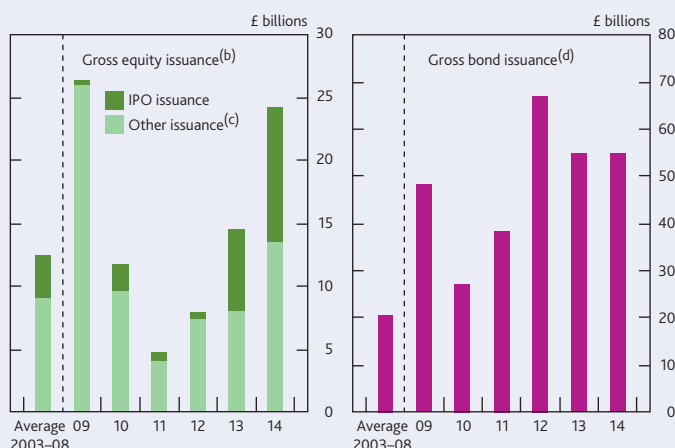
(a) Finance raised by PNFCs from UK MFIs and from capital markets. Bonds data cover debt issued by UK companies via UK-based Issuing and Paying Agents. Data cover funds raised in both sterling and foreign currency, expressed in sterling. Seasonally adjusted. Bonds, equity and commercial paper are non seasonal.

(b) Owing to the seasonal adjustment methodology, this series may not equal the sum of its components.

Gross equity issuance in 2014 was partly driven by a buoyant initial public offering (IPO) market, with gross IPO issuance greater than in 2013 (**Chart B**). Strong issuance in the first half of 2014 was followed by a marked slowdown in the overall value of UK IPOs.⁽¹⁾ There was a brief episode of volatility in October which caused a number of IPOs to be cancelled or postponed, as flotations typically require calm market conditions to proceed.

The value of share buy-backs also declined in 2014, driven by lower repayments by some companies who had bought back higher amounts in recent years, according to Bank of England data.

Chart B Gross bond and equity issuance by UK businesses^(a)



Sources: Dealogic and Bank calculations.

(a) Issued by PNFCs incorporated and operating in the United Kingdom or by financing vehicles, unless either are guaranteed by a foreign parent. Data cover issuance in both sterling and foreign currency, expressed in sterling. Data are subject to periodic revisions. Non seasonally adjusted.

(b) Data include initial public offerings and follow-on equity issuance, but not the issuance of convertible bonds. Data include public equity issuance by non-financial corporations as well as by government and supranational entities.

(c) This consists of follow-on issuance.

(d) Data include investment-grade and non-investment grade bonds.

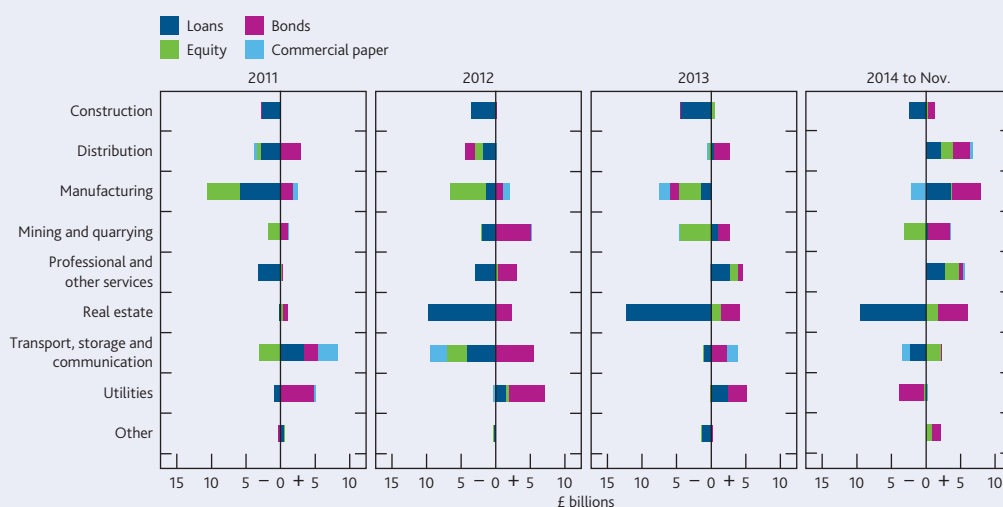
The turnaround in net equity issuance by UK businesses at the aggregate level in 2014 compared to recent years was mirrored in some industrial sectors such as distribution and transport, storage and communication (**Chart C**). Net equity issuance in the manufacturing sector was close to zero in 2014, having been negative in each year from 2010–13. Businesses in the mining and quarrying sector continued to report negative net equity issuance in 2014 (**Chart C**).

Bond and commercial paper issuance

Net bond issuance was positive in 2014 to November (magenta bars in **Chart A**), broadly similar to the same period in 2013. Positive net issuance was again recorded in the real estate and distribution sectors (**Chart C**). Net bond issuance in the manufacturing sector was the highest since 2008. This largely reflected stronger gross issuance than in recent years.

The box in January 2012 *Trends in Lending* noted that companies in the mining and quarrying and utilities sectors have typically accessed capital markets rather than bank lending for capital expenditure requirements. Net bond issuance by firms in the mining and quarrying sector continued to be positive in 2014 (**Chart C**).

In some contrast, businesses in the utilities sector had negative net bond issuance for the first time since the series began in 2003. Gross issuance in this sector was relatively low in 2014, and accounted for by four businesses compared to a minimum of ten each year over the past decade, according to Bank of England data. More generally, data from Dealogic indicated that gross bond issuance by UK PNFCs remained strong in 2014 (**Chart B**).

Chart C Net finance raised by UK businesses by major industrial sectors, 2011 to November 2014^(a)

(a) Finance raised by PNFCs from UK MFIs and from capital markets. Data cover funds raised in both sterling and foreign currency, expressed in sterling. Non seasonally adjusted. Data for PNFCs have been estimated by subtracting elements of the industrial breakdown for non-financial corporations thought to contain mainly public sector industries (public administration and defence, education, health and social work and recreational, personal and community services). For these reasons, the total yearly flows will not exactly equal the data for PNFCs in **Chart A** and **Table 1.A** (all currency loans). Further details on the loans series used in the chart are provided in the spreadsheet accompanying this box, available at www.bankofengland.co.uk/publications/Documents/other/monetary/additionalboxesjanuary2015.xls.

Previous editions of *Trends in Lending* noted that tenors on corporate bonds were typically longer than tenors available on bank loans, which suited those companies requiring longer-term funding. Contacts of the Bank's network of Agents reported that some larger companies were taking advantage of attractive bond market rates, especially at longer maturities, in 2014.

Net issuance of commercial paper was negative in 2014 to November (light blue bars in **Chart A**). This was mainly driven by negative net issuance in the manufacturing and transport, storage and communication sectors (**Chart C**).

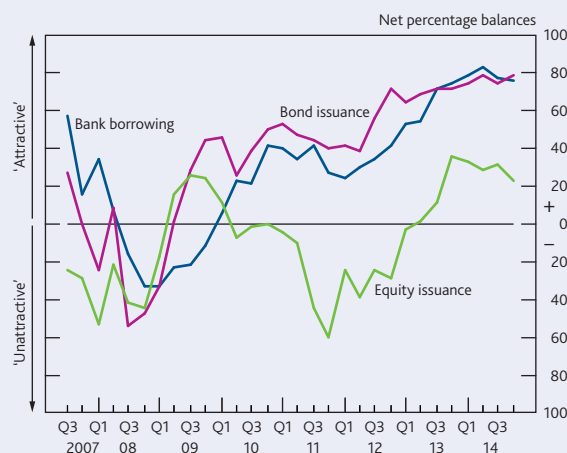
Net finance raised from banks and capital markets

Taking the bond, equity and commercial paper markets together, net capital market issuance in the year to November was the highest in five years.⁽²⁾ Bank lending to businesses continued to contract, albeit at a slower pace than in previous years (**Chart A** and **Table 1.A**).

Overall, positive net capital market issuance offset negative bank lending to companies, such that net finance raised by UK businesses from UK monetary financial institutions and from capital markets was positive in 2014 to November (**Chart A**). With net bank lending less negative and net capital issuance higher than in previous years, net finance raised in 2014 was the highest since 2008, though remained below the pre-crisis average.

Notwithstanding the contraction in bank lending in recent years, a significant balance of respondents to the *Deloitte CFO Survey* 2014 Q4 — which covers large companies — indicated that bank borrowing was broadly as 'attractive' a source of funding as bond issuance for the past six quarters (**Chart D**).

Equity issuance was also reported as an 'attractive' source of funding, though the balance of respondents declined slightly since the series high in 2013 Q4.

Chart D *Deloitte CFO Survey*: attractiveness of different sources of corporate funding^(a)

(a) Net percentage balances are calculated as the percentage of respondents who reported that each source of funding was 'attractive' less the percentage who reported that it was 'unattractive'. A positive balance indicates that a balance of respondents found that particular source of funding 'attractive'.

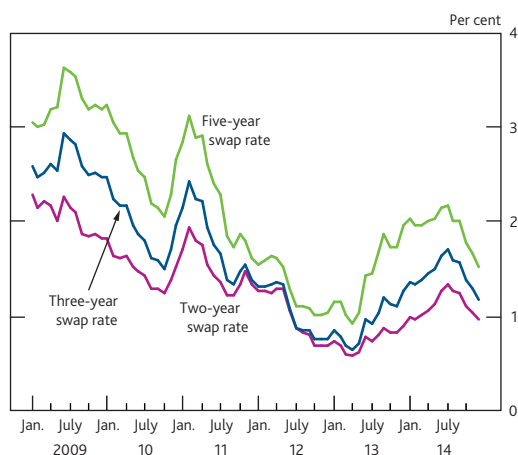
Looking forward, the balance of respondents to the *Deloitte CFO Survey* expected bond issuance to increase in 2015. The balance of respondents expecting equity issuance to increase over the next year was positive, but at the lowest since 2013 Q2.

- (1) For more details see Chart 10 in 'Markets and operations', *Bank of England Quarterly Bulletin*, Vol. 54, No. 4, page 440, available at www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q406.pdf.
- (2) For more details see *Capital Issuance* statistical release, November 2014, available at www.bankofengland.co.uk/statistics/Pages/ci/2014/nov.aspx.

2 Loan pricing

Pricing on lending to small and medium-sized enterprises was broadly unchanged in the three months to November. Respondents to the Bank of England's 2014 Q4 *Credit Conditions Survey* reported that spreads on new lending to large businesses fell significantly. The quoted interest rates on some two-year fixed-rate mortgages, such as those at 75% and 90% loan to value ratios, fell in 2014 Q4.

Chart 2.1 Swap rates at different maturities^(a)



Sources: Bloomberg and Bank calculations.

(a) Sterling swap rates. Swap rates are monthly averages of daily data. Data are to end-December 2014.

This section discusses recent developments in loan pricing for businesses and individuals, based on statistical data, survey evidence and discussions with the major UK lenders.

The total cost of bank finance to a company or individual can generally be decomposed into the fees charged by the lender to provide loan facilities, the spread over a given reference rate at which loans are offered, and the prevailing level of that reference rate in the financial markets.

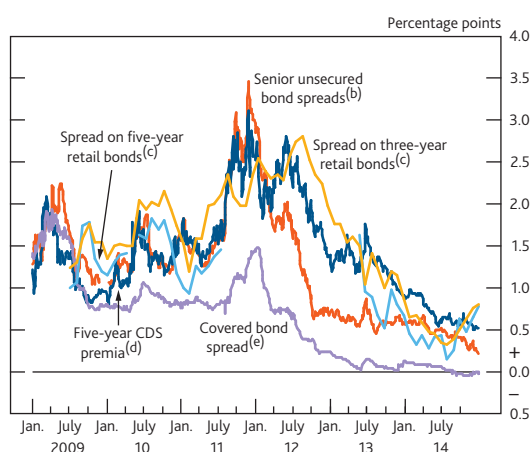
Some reference rates fell in Q4. In particular, swap rates — a key factor in the setting of retail and fixed mortgage rates — fell. Two, three and five-year swap rates were, on average, over 25 basis points lower in 2014 Q4 compared with Q3 (**Chart 2.1**).

The cost of bank funding influences the rates charged to households and companies.⁽¹⁾ In terms of wholesale funding, spreads over relevant swap rates on some longer-term bank debt were, on average, slightly lower in 2014 Q4 than in the previous quarter (**Chart 2.2**). Combined with the fall in reference rates, wholesale funding costs fell slightly. Retail funding costs, such as the rates paid on three and five-year bonds, were little changed in Q4 as the fall in swap rates was offset by a rise in spreads (**Chart 2.2**).

The Bank of England and HM Treasury announced a one-year extension to the Funding for Lending Scheme in December 2014.⁽²⁾ This extension will provide lenders with continued certainty over the availability of cheap funding to support lending to SMEs during 2015, even in the event of stress in bank funding markets.

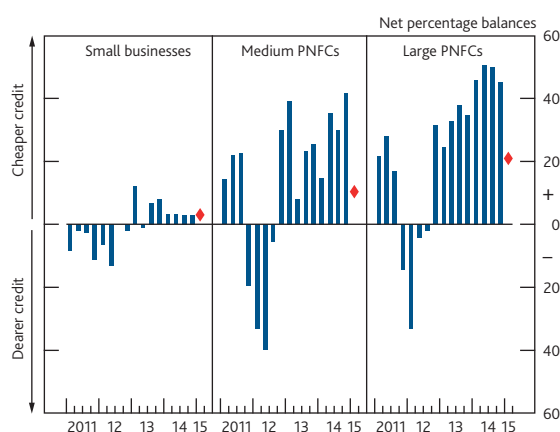
(1) See Beau, E, Hill, J, Hussain, T and Nixon, D (2014), 'Bank funding costs: what are they, what determines them and why do they matter?', *Bank of England Quarterly Bulletin*, Vol. 54, No. 4, pages 370–84, which sets out what bank funding costs are in simple terms and introduces a simple framework for analysing the main drivers of funding costs. Available at www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q401.pdf.

(2) For more details on the extension to the Funding for Lending Scheme, see Bank of England News Release, 2 December 2014, available at www.bankofengland.co.uk/publications/Pages/news/2014/165.aspx.

Chart 2.2 Indicative long-term funding spreads^(a)

Sources: Bloomberg, Markit Group Limited, Bank of England and Bank calculations.

- (a) All data are to 31 December 2014.
 (b) Constant-maturity unweighted average of secondary market spreads to mid-swaps for the major UK lenders' five-year euro senior unsecured bonds, where available. Where a five-year bond is unavailable, a proxy has been constructed based on the nearest maturity of bond available for a given institution. The gap in the time series between 1 December 2009 and 11 January 2010 is because no suitable bonds were in issuance in that period.
 (c) Spreads for sterling fixed-rate retail bonds over equivalent-maturity swaps. Bond rates are end-month rates and swap rates are monthly averages of daily rates. The bond rates are weighted averages of rates advertised by the banks and building societies in the Bank of England's quoted rate sample, for products meeting the selection criteria (see www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/household_int.aspx). The series for the five-year bond is not included for May 2010 and August 2011 to April 2013 as fewer than three institutions in the sample offered products in these periods.
 (d) The data show an unweighted average of the five-year senior CDS premia for the major UK lenders, which provides an indicator of the spread on euro-denominated long-term wholesale bonds.
 (e) Constant-maturity unweighted average of secondary market spreads to mid-swaps for the major UK lenders' five-year euro-denominated covered bonds, where available. Where a five-year covered bond is unavailable, a proxy has been constructed based on the nearest maturity of bond available for a given institution.

Chart 2.3 *Credit Conditions Survey*: spreads over reference rates on lending to corporates by firm size^{(a)(b)(c)}

- (a) Net percentage balances are calculated by weighting together the responses of those lenders who answered the question. The bars show the responses over the previous three months. The diamonds show the expectations over the next three months. Expectations balances have been moved forward one quarter. Where the *Credit Conditions Survey* is discussed, descriptions of a 'significant' change refer to a net percentage balance greater than 20 in absolute terms, and a 'slight' change refers to a net percentage balance of between 5 and 10 in absolute terms.
 (b) Small businesses are defined as those with annual turnover of less than £1 million; medium-sized corporates are defined as those with annual turnover of between £1 million and £25 million; and large corporates are defined as those with annual turnover of over £25 million.
 (c) Spreads are over Bank Rate or London interbank offered rate (Libor) for small businesses, and over Libor for medium-sized companies and large corporates. A positive balance indicates that spreads over reference rates have fallen, such that all else being equal it is cheaper for corporates to borrow.

Corporate loan pricing

The spread over relevant reference rates that SMEs face on new borrowing can vary widely, taking into account various business-specific risk and credit quality factors. As a result there is no single definitive measure of loan pricing; statistical and survey data can provide broad estimates, but these may not entirely reflect the true cost of credit faced by SMEs.⁽¹⁾

Spreads over reference rates on new lending to small businesses remained unchanged in 2014 Q4 according to lenders in the Bank of England's *Credit Conditions Survey* (Chart 2.3). Respondents continued to report that for medium-sized firms they had fallen significantly. Fees and commissions on loans to small businesses fell, and for medium-sized businesses fell significantly, in Q4.

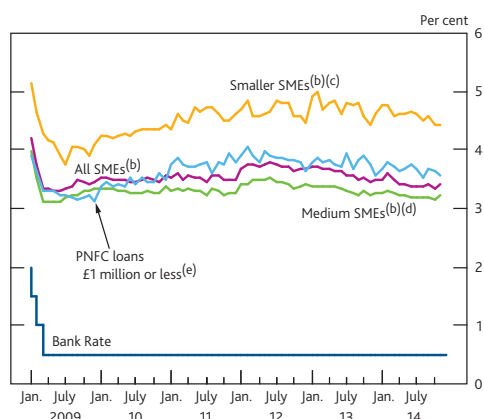
Indicative median interest rates (Chart 2.4) and spreads on new variable-rate facilities to all SMEs were little changed in the three months to November compared to the previous three months, according to survey data from the Department for Business, Innovation and Skills (BIS). The Bank's measure of the effective rate on new corporate lending for advances of £1 million or less — an indicator of pricing on loans to smaller businesses — was also little changed (Chart 2.4).

Over a longer period, pricing on lending to SMEs continued to drift down, according to some survey measures. The Federation of Small Businesses' *Voice of Small Business Index* 2014 Q4 reported that of those respondents who had successfully applied, credit was offered at lower rates to a larger proportion of firms than a year ago. The *SME Finance Monitor* suggested that the median fixed rate for loans had fallen somewhat over the year to 2014 Q2.

Pricing on lending to large companies remained favourable, according to survey evidence. Respondents to the 2014 Q4 *Credit Conditions Survey* reported that spreads on new lending to large businesses fell significantly (Chart 2.3). Lenders in the survey reported that fees and commissions on loans to large businesses also fell significantly. The balance of respondents to the *Deloitte CFO Survey* — which covers large companies — continued to report the cost of credit to be 'cheap' in Q4, though the balance was slightly lower than in recent quarters.

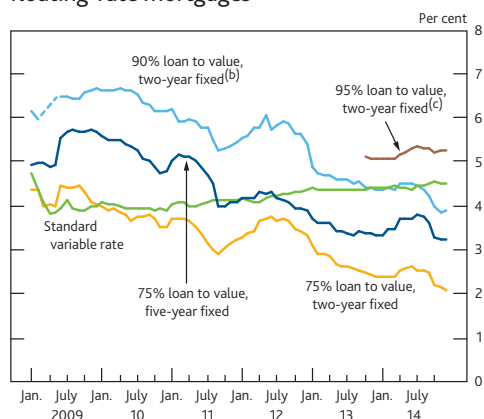
Contacts of the Bank's network of Agents reported that competition among corporate lenders had intensified. Contacts also reported significant refinancing activity, at lower margins and/or for longer terms. Looking forward, respondents to the *Credit Conditions Survey* expected spreads on new business lending in 2015 Q1 to fall significantly for large companies, to fall for medium-sized firms and to be unchanged for small businesses (Chart 2.3).

(1) For more details see the box on 'Recent trends in lending to small and medium-sized enterprises' in July 2013 *Trends in Lending*, available at www.bankofengland.co.uk/publications/Documents/other/monetary/trendsjuly13.pdf.

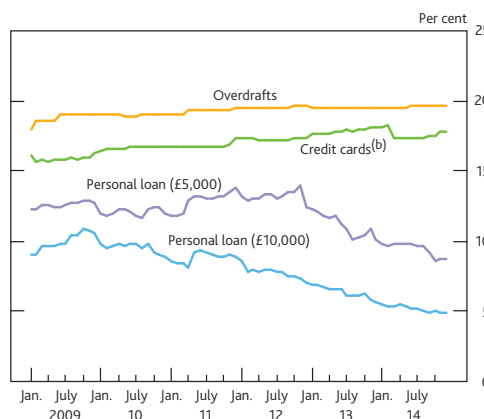
Chart 2.4 Indicative interest rates on lending to SMEs^(a)

Sources: BIS, Bank of England and Bank calculations.

- (a) These indicative rates do not reflect the impact of cashback deals or fees. Data for Bank Rate are to end-December and for all other series to end-November. Non seasonally adjusted.
- (b) Median by value of SME facilities (new loans, new and renewed overdrafts) priced at margins over base rates, by four major UK lenders (Barclays, HSBC, Lloyds Banking Group and Royal Bank of Scotland). Data cover lending in both sterling and foreign currency, expressed in sterling.
- (c) Smaller SMEs are businesses with annual debit account turnover on the main business account less than £1 million.
- (d) Medium SMEs are businesses with annual debit account turnover on the main business account between £1 million and £25 million.
- (e) Weighted average of new lending to PNFCs of all sizes by UK MFIs for advances less than or equal to £1 million, an indicator of pricing for small business loans. Data cover lending in sterling. The Bank's effective interest rates series are currently compiled using data from 23 UK MFIs.

Chart 2.5 Quoted interest rates on fixed-rate and floating-rate mortgages^(a)

- (a) Sterling. The Bank's quoted interest rates series are currently compiled using data from up to 23 UK MFIs. End-month rates. Non seasonally adjusted.
- (b) This series was not available between March and May 2009 as fewer than three products were offered in that period.
- (c) This series was not available between May 2008 and September 2013 as fewer than three products were offered in that period.

Chart 2.6 Quoted interest rates on consumer credit^(a)

- (a) Sterling. The Bank's quoted interest rates series are currently compiled using data from up to 23 UK MFIs. End-month rates. Non seasonally adjusted.
- (b) This series does not include 0% introductory offers on credit cards.

Mortgage pricing

The Bank's measure of the effective rate on new mortgages was little changed over 2014 to November.⁽¹⁾ Within this, the effective floating rate fell.

The quoted interest rates on some two-year fixed-rate mortgages, such as those at 75% and 90% loan to value (LTV) ratios, fell in 2014 Q4 compared to the previous quarter (**Chart 2.5**).⁽²⁾ This followed earlier rate reductions from the second half of Q3. The decline in these rates was greater than the reduction in the two-year swap rate, such that spreads over relevant reference rates for these products fell during the quarter. In recent discussions, the major UK lenders noted an increase in competition in the mortgage market. Some lenders also noted that as activity had slowed, the increase in competition meant that rates had to be cut by more than had been previously required.

Rates on some other mortgages, such as those on two and five-year fixed-rate products at 95% LTV ratio were little changed in Q4 compared to the previous quarter. With swap rates having fallen during this period (**Chart 2.1**), spreads over relevant reference rates increased. Both rates and spreads on some floating-rate products such as the standard variable rate and lifetime tracker were unchanged during this period, though the rate on the two-year 75% LTV ratio product fell. Looking ahead, most major UK lenders did not expect mortgage rates to fall significantly in the coming months.

Consumer credit pricing

Quoted rates on some personal loans fell or were broadly unchanged in 2014 Q4 (**Chart 2.6**). In recent discussions, some major UK lenders expected competition to lead to downward pressure on pricing on personal loans in 2015 Q1. The quoted rate on credit cards was broadly similar in 2014 Q4 compared to the previous quarter (**Chart 2.6**).

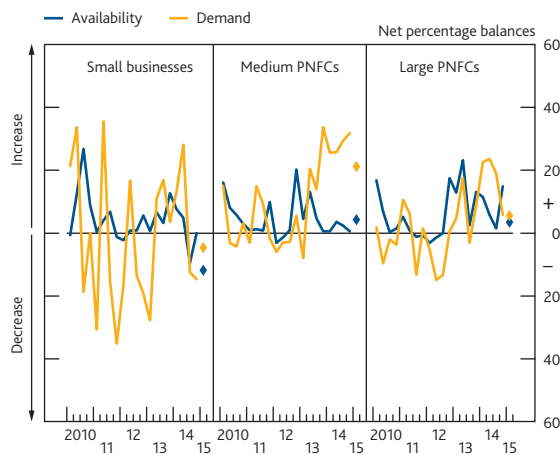
(1) For more details on the methodology underlying the Bank's effective rates data, see www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/effective_int.aspx.

(2) For more details on the methodology underlying the Bank's quoted rates data, see www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/household_int.aspx.

3 Credit supply and demand

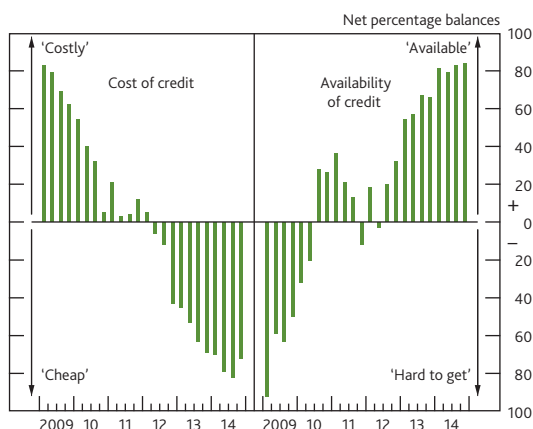
Contacts of the Bank's network of Agents noted that credit availability had continued to improve, with banks competing to lend to larger firms or lower-risk companies. Respondents to the Bank of England's *Credit Conditions Survey* expected demand for bank lending to increase for all but small businesses in 2015 Q1. Lenders in the survey reported that the availability of secured credit to households rose slightly, and that demand fell significantly in 2014 Q4. Demand for credit card and other unsecured lending increased significantly, according to respondents to the survey.

Chart 3.1 *Credit Conditions Survey: availability and demand for credit across firm sizes^(a)*



(a) See footnote (a) (for this chart lines rather than bars are used to show the responses over the previous three months) and footnote (b) to Chart 2.3. A positive balance indicates that more credit is available or an increase in demand.

Chart 3.2 *Deloitte CFO Survey: cost and availability of credit^(a)*



(a) Net percentage balances for the cost of credit are calculated as the percentage of respondents reporting that bank credit is 'costly' less the percentage reporting that it is 'cheap'. Net percentage balances for the availability of credit are calculated as the percentage of respondents reporting that credit is 'available' less the percentage of respondents reporting that it is 'hard to get'. A positive balance indicates that a net balance of respondents report that credit is 'costly' or credit is 'available'.

The amount of lending and its price depend on the interaction of demand and supply factors. Disentangling the separate influences of changes in the supply of, and demand for, credit is difficult though survey data can help. This section looks at recent trends in credit supply and demand, drawing on surveys, reports from the Bank's network of Agents, and discussions with the major UK lenders.

Credit conditions for businesses

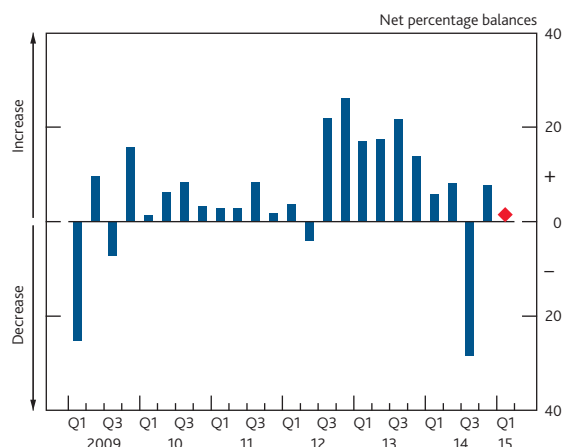
Credit availability was unchanged for small and medium-sized businesses but increased for large corporates in 2014 Q4, according to respondents to the Bank of England's *Credit Conditions Survey* (Chart 3.1). The balance of respondents to the *Deloitte CFO Survey* 2014 Q4 — which covers large companies — who reported that credit was 'available' remained over 80% (Chart 3.2).

Contacts of the Bank's Agents noted that credit availability had continued to improve, with banks competing to lend to larger firms or lower-risk companies. Contacts also noted that credit conditions for SMEs continued to generally improve though smaller firms still reported less competitive conditions, in comparison to larger firms.

Looking forward, lenders in the *Credit Conditions Survey* — which was undertaken between 10 November and 1 December — expected overall credit availability to the corporate sector to be unchanged in the coming quarter.

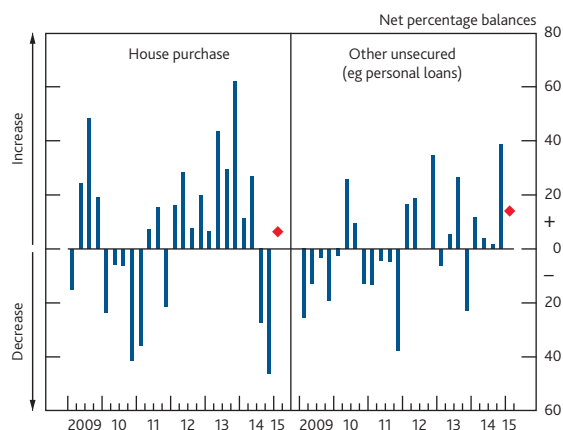
Demand for corporate credit differed by size of business in 2014 Q4, according to lenders in the *Credit Conditions Survey* (Chart 3.1). Respondents reported that demand for lending from small businesses fell again but demand from medium-sized companies increased significantly for the fourth consecutive quarter. More generally, the proportion of SMEs not seeking finance (bank loans, overdrafts) was 77% in 2014 Q3 and broadly the same for the past four quarters,

Chart 3.3 Credit Conditions Survey: availability of secured credit to households^(a)



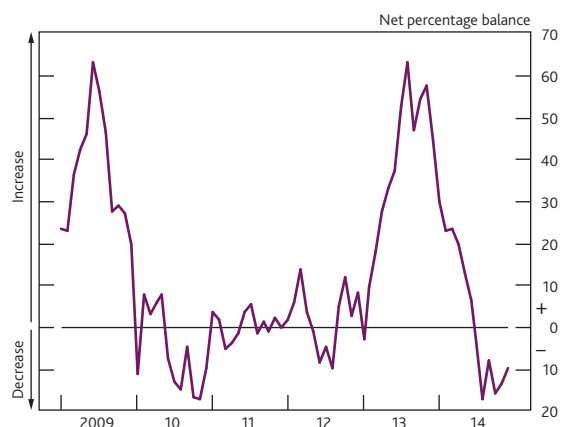
(a) See footnote (a) to Chart 2.3. A positive balance indicates that more credit is available.

Chart 3.4 Credit Conditions Survey: demand for household secured and unsecured lending^(a)



(a) See footnote (a) to Chart 2.3. A positive balance indicates an increase in demand.

Chart 3.5 RICS Residential Market Survey: new buyer enquiries^(a)



(a) Net percentage balance for new buyer enquiries is calculated as the proportion of respondents reporting an increase in enquiries over the previous month, less the proportion reporting a decrease. A positive balance indicates an increase in enquiries. Seasonally adjusted.

according to the *SME Finance Monitor*.⁽¹⁾ Respondents to the *Credit Conditions Survey* reported that demand increased slightly from large corporates in 2014 Q4. Demand for credit was expected to increase in 2015 Q1 for all but small businesses, according to lenders in the survey.

Credit conditions for households

The availability of secured credit to households rose slightly in the three months to early December having fallen significantly in the previous three months, according to respondents to the *Credit Conditions Survey* (Chart 3.3). Lenders in the survey reported that they had become less willing to lend at LTV ratios above 90%. Looking ahead, the availability of secured credit was expected to be unchanged in 2015 Q1.

Demand for secured lending for house purchase was reported to have fallen significantly, according to respondents to the 2014 Q4 *Credit Conditions Survey* (Chart 3.4). Lenders in the survey also reported that demand for secured lending for remortgaging fell. The Royal Institution of Chartered Surveyors' (RICS) new buyer enquiries balance was again negative in 2014 Q4, consistent with a fall in demand for house purchase (Chart 3.5).

Contacts of the Bank's Agents reported that housing market activity had slowed and house price inflation had softened. Looking ahead, respondents to the *Credit Conditions Survey* expected demand for secured credit for house purchase to increase slightly in 2015 Q1 (Chart 3.4) and that for remortgaging to increase.

Respondents to the *Credit Conditions Survey* indicated that the amount of unsecured credit made available to households increased in 2014 Q4. Lenders expected a further slight rise in the availability of unsecured credit in 2015 Q1, largely driven by market share objectives.

Demand for other unsecured lending products, such as personal loans, increased significantly in 2014 Q4, according to respondents to the *Credit Conditions Survey* (Chart 3.4). Some lenders in the survey attributed the pickup in demand to lower pricing. Demand for credit card lending also increased significantly in 2014 Q4, according to respondents to the survey. Another increase in demand for other unsecured lending products, and a further significant increase in demand for credit card lending, was expected in Q1.

(1) These SMEs are those that had not had a borrowing event, and also said that nothing had stopped them from applying for any (future) loan/overdraft funding in the previous twelve months.

Abbreviations

BIS — Department for Business, Innovation and Skills.

CDS — credit default swap.

CFO — chief financial officer.

CML — Council of Mortgage Lenders.

FLS — Funding for Lending Scheme.

IPO — initial public offering.

Libor — London interbank offered rate (see below).

LTV ratio — loan to value ratio (see below).

M4Lx — Sterling M4 lending excluding the effects of securitisations etc.

MFIs — monetary financial institutions (see below).

PNFCs — private non-financial corporations (see below).

RICS — Royal Institution of Chartered Surveyors.

SMEs — small and medium-sized enterprises.

Glossary

Arrears rate	The number of loans in arrears divided by the number of loans outstanding.
Bank Rate	The official rate paid on commercial bank reserves by the Bank of England.
Businesses	Private non-financial corporations.
Consumer credit	Borrowing by UK individuals to finance expenditure on goods and/or services. Consumer credit is split into two components: credit card lending and 'other' lending (mainly overdrafts and other loans/advances).
Effective interest rates	The weighted average of calculated interest rates on various types of sterling deposit and loan accounts. The calculated annual rate is derived from the deposit or loan interest flow during the period, divided by the average stock of deposit or loan during the period.
Facility	An agreement in which a lender sets out the conditions on which it is prepared to advance a specified amount to a borrower within a defined period.
Gross lending	The total value of new loans advanced by an institution in a given period.
Liquidations rate	The number of corporate liquidations divided by the number of companies.
Loan approvals	Lenders' firm offers to advance credit.
Loan to value (LTV) ratio	Ratio of outstanding loan amount to the market value of the asset against which the loan is secured (normally residential or commercial property).
London interbank offered rate (Libor)	The rate of interest at which banks borrow funds from each other, in marketable size, in the London interbank market.

Major UK lenders	Banco Santander, Barclays, HSBC, Lloyds Banking Group, Nationwide and Royal Bank of Scotland.
Monetary financial institutions (MFIs)	A statistical grouping comprising banks and building societies.
Mortgage lending	Lending to households, secured against the value of their dwellings.
Net lending	The difference between gross lending and repayments of debt in a given period.
Personal insolvency rate	The number of individual insolvencies divided by the adult population.
Possessions rate	The number of properties taken into possession divided by the number of mortgages outstanding.
Private non-financial corporations (PNFCs)	All corporations (and partnerships) whose primary activity is non-financial and that are not controlled by central or local government.
Reference rate	The rate on which loans are set, with an agreed margin over the reference rate (typically this will be Bank Rate, Libor or a swap rate).
Remortgaging	A process whereby borrowers repay their current mortgage in favour of a new one secured on the same property. A remortgage would represent the financing of an existing property by a different mortgage lender.
Specialist/other mortgage lenders	Providers of mortgage loans for niche markets that generally fall outside the scope of mainstream mortgage lending.
Swap rate	The fixed rate of interest in a swap contract in which floating-rate interest payments are exchanged for fixed-rate interest payments. Swap rates are a key factor in the setting of fixed mortgage rates.
Syndicated loan	A loan granted by a group of banks to a single borrower.
Write-off rate	The value of write-offs divided by the stock of loans outstanding.

Symbols and conventions

Except where otherwise stated the source of data in charts is the Bank of England.

On the horizontal axes of charts, larger ticks denote the first observation within the relevant period, eg data for the first quarter of the year.